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TAGS: [PREL](#) [PGOV](#) [PM](#) [CH](#) [TW](#) [ECON](#)  
SUBJECT: No Recognition for PRC Anytime Soon - Panama Sticks with Taiwan

REF: 09 PANAMA 461; 09 SAN JOSE 985; 10 PANAMA 29

CLASSIFIED BY: Stephenson, Ambassador; REASON: 1.4(B), (D)

Summary

¶1. (U) The GOP has renewed its commitment to Panama's longstanding relationship with Taiwan, despite public statements by President Ricardo Martinelli in 2009 that Panama would opt for formal diplomatic ties with the People's Republic of China (PRC). Martinelli attempted to follow through with his plan for recognizing the PRC but was told to back off by the Chinese. Taiwan has used financial incentives to retain the backing of the Martinelli administration, generating controversy over the recent "donation" of a \$22 million business jet for the government's official use. End Summary.

Hurry up and Wait

¶2. (C) On January 6, Foreign Minister Juan Carlos Varela agreed to a "five-year cooperation" plan with Taiwan which includes the donation of \$25 million for construction of a hospital on the outskirts of Panama City in Chilibre - Las Cumbres and the donation of a \$22 million executive business jet. Varela had to backtrack in announcing the cooperation plan; during their 2009 presidential campaign, both he and President Martinelli publicly indicated that Panama would recognize the growing economic relationship with China, as well as China's particular interests in Panama, by establishing formal diplomatic relations. During his first meeting as President with the Ambassador in May 2009, Martinelli said that he was "going to recognize Beijing" as he thought that Panama's business community would benefit as a result (Ref A).

¶3. (C) Martinelli may have had in mind the type of cooperation that Costa Rica has been enjoying with the PRC since establishing formal

ties in 2007 (Ref B). However, FM Varela stated to the Ambassador on February 18 that he was told by the Chinese Foreign Minister during his visit to Asia the previous month that, due to diplomatic overtures underway between Beijing and Taipei, now was not the time for Panama to recognize the PRC. On February 1, Costa Rican President Oscar Arias informed a Colombian diplomat that Martinelli told him Panama wanted to follow Costa Rica's lead but that the Chinese had asked him to "remain calm" and that the PRC was not interested in furthering diplomatic ties in the region for the time being. Chinese diplomats have related to Poloff in Costa Rica that the PRC was concerned that diplomatic recognition from other Latin American countries might damage their recently improved relations with Taiwan (Ref B).

¶4. (U) While Panama and Taiwan have full diplomatic relations, the PRC maintains only a trade mission in Panama. The PRC has important economic interests in Panama; Hong Kong-based companies operate two of the four ports on both the Atlantic and Pacific terminus of the Panama Canal and the PRC is the second most frequent user of the waterway. The PRC is also the largest supplier of goods to the Colon Free Zone (CFZ), the world's second largest free trade zone. Taiwan and Panama, meanwhile, signed a free trade agreement in 2003. The ethnic Chinese community in Panama remains publicly agnostic on the issue of official recognition for the PRC. "Chino-Panamanos" number between 130,000 and 200,000 (roughly 4-6% of the population) and are ubiquitous in the convenience store or "mini-super" industry.

#### Where Does the Money Go?

¶5. (U) Varela's confirmation of the renewal of ties with Taiwan came on the heels of Taiwan's gift to the GOP of a \$22 million Embraer Legacy 600 executive business jet in December 2009. Martinelli had previously received criticism for his plans to purchase a new official jet, which ran counter to his campaign rhetoric indicating that, with an officially declared personal fortune of approximately \$300 million, he would not need to charge the public treasury for executive travel. The government of Taiwan has historically used financial incentives to sweeten its relationship with Panama: political science professor Miguel Antonio Bernal estimated aid to be \$125 million per year during the previous administration of President Martin Torrijos. Scholarships for study in Taiwan and grants to various ministries are among the ways Taiwan has donated to Panama. Last year during an address to the Panamanian National Assembly, Taiwanese President Ma expressed interest in "project-based" aid, specifically mentioning planned improvements to Panama's mass transit system.

¶6. (U) The longstanding financial aid has been derided on both sides of the Pacific as "checkbook diplomacy" and there is a traditional lack of transparency in how the money received from Taiwan is spent. Varela stated to Polcouns and the Ambassador that the money is simply deposited in the treasury. In mid-February of this year reports surfaced that former president Mireya Moscoso was facing investigation for the misuse of up to \$70 million in funds from Taiwan. Moscoso has denied any involvement in distribution of money received by Mar Del Sur, a foundation set up for the sole purpose of distributing Taiwanese funds.

#### Comment

¶7. (C) The GOP decision to publicly back Taiwan is the result of financial incentives and a current lack of interest by the PRC. Martinelli seems to have been yearning for a dramatic diplomatic maneuver in pursuing recognition of the PRC but did not appear to have factored in the possibility that China would use (or, rather, not use) Panama for its own ends in improving its relationship with

Taiwan.  
STEPHENSON